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FOREIGN SERVICE DESPATCH

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	ACTION	DEPT.
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SUBJECT: Libyan-American Reconstruction Commission: Ninth and Tenth Meetings

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JOINT EMBASSY-USOM/L MESSAGE

The Embassy-USOM forward as Enclosure No. 1, six copies of the summary minutes of LAC's ninth meeting on January 25 and 31, 1956 and as Enclosure No. 2 six copies of the summary minutes of the tenth meeting on February 23, 1956, together with two appendices: a program status report as of February 15, 1956 and a recapitulation of 1955/56 projects plus certain proposed projects for 1956/57.

The minutes of the ninth meeting, as enclosed, do not reflect the first item of business on January 25, which was a restricted session devoted to the reading and discussion of a message from the Prime Minister concerning LAC's operations. This session was fully reported in Embtel 370 of January 26, 1956 and Tel A-367 of February 6, 1956.

The program status report referred to in Paragraph 4, and following, of Enclosure No. 1 was transmitted to the Department with Despatch 254 of January 18, 1956. Discussion of its contents at the ninth meeting served chiefly as an excuse for Salem el Qadi to bring up again his favorite project - the heavy agricultural machinery pools that he wants to establish throughout Libya. There is some suspicion that the persistence he has displayed in promoting this project stems more from personal financial interest than from professional conviction of its usefulness. The subject was taken up again later in the meeting (Paragraph 9 and following). In the face of a Technical Subcommittee report that no LAC funds were needed in view of a provision for heavy agricultural machinery in the GoL's Exceptional Budget, El Qadi insisted that the Exceptional Budget allocation was not large enough and demanded a meeting of the interested parties in which apparently he intended to push through a favorable recommendation. This meeting has to date not been held, and as far as El Qadi is concerned the question now appears to be academic, since he is no longer Minister of National Economy. The new Minister, Taftah Areighie, has so far shown himself to be intelligent and sensible, and it is probable that not only will no additional funds be requested from LAC but the Exceptional Budget heavy agricultural machinery project will proceed on the original limited experimental basis rather than as envisioned by El Qadi.

For further information on the transfer of funds for the purchase of the

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Tripoli power plant (Paragraph 71 and following), see Despatch 370 of May 1, 1956.

The "Fezzan Projects" item (Paragraph 79 and following) represents a reallocation of LARC funds earmarked for projects in the Fezzan to provide for a rationalization of responsibilities in that province between LARC, LPDSA, and UNESCO. With the possible exception of one item (a Legislative Assembly building), the result was acceptable to LARC, and the difficulties of arriving at a settlement satisfactory to all the above agencies and the Fezzan Administration made it inadvisable to reopen the question.

At the tenth meeting of LARC (Enclosure No. 2) a program status report as of February 15, 1956 (Appendix I, Enclosure No. 2) was presented to the Commission. This report has already been superseded by a program status report as of March 26, 1956, transmitted to the Department with Despatch 348 of April 10, 1956.

The Department will note that during the tenth meeting, in the discussion of the program status report and the problem of transferring funds to action agencies, three of the Libyan members of the Commission (Ali Sahli, Fuad Kabazi, and Omar Yacoub), sparked by Kabazi, displayed a sensible concern for proper financial management of LARC funds. Kabazi, in particular, is under no illusions as to the efficiency and responsibility of Libyan Government departments as action agencies for LARC projects and is fully in accord with the policy of assuring LARC supervision through partial withholding of allotted funds.

For an Embassy-USOM comment on international bidding on LARC projects (Paragraph 25 of the minutes of the tenth meeting), as it affects American firms, the Department is referred to Despatch 370 of May 1, 1956.

Appendix I to Enclosure No. 2 (see Paragraph 47 and following, minutes of the tenth meeting) offers a preliminary sketch of a sufficient number of new LARC projects to more than exhaust the agreed allocation of DA funds to Libya for U. S. fiscal year 1956. These projects were arrived at in consequence of the Federal Government's insistence upon reviewing, in advance of their submission to the provincial legislatures, the budgets of the provincial administrations and cutting therefrom all or most of the items which could be identified as developmental. This was an interesting example of the gradual encroachment of the Federal Government upon provincial functions, the "creeping centralization" that has, as the Embassy expected, been substituted in some measure for the more dramatic and at present politically unattainable centralization measures earlier envisioned by the Ben Halim Government.

The projects thus eliminated from the provincial budgets have been presented to LARC for financing. They have been accepted by LARC, subject to availability of funds, but have still to be reviewed by the Executive Director's Office to determine whether any of them overlap already existing LARC projects. The total estimated cost may therefore be reduced to some extent in the process of reconciliation with the LARC program. On the whole, the idea is

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sound, in that it removes another possibility of uncoordinated economic development by bringing the last major locus of developmental activities in Libya into the fold with USOM/L, UNTAM, LARC, LPDSA, and the Federal Government's Exceptional Budget, which have developed a remarkably close cooperation, considering the difficulties facing any governmental operation in Libya. However, the proposal raised certain questions of policy regarding the types of projects that would be acceptable to LARC. The three types concerned were (1) local power plant facilities, (2) low-cost housing, and (3) school construction. While all three are subject to some reservations regarding their suitability for LARC financing, it is believed that the advantages of better economic development coordination and the opportunity to apply LARC procedures to provincial development projects outweigh any disadvantages.

The changes and additions in LARC procedures mentioned in Paragraphs 71 and 72 are the result of the Prime Minister's effort of January 25 to discredit LARC. Only minor changes will be suggested by the committee of two (Mr. Hannum and Sir Arthur Dean), which was formed to recommend improvements in LARC procedures.

The suggestion in Paragraph 92 that the remaining funds in LARC's U. S. Treasury account be transferred to a commercial account for the purpose of earning a higher rate of interest turned out to be academic as far as the presently available funds are concerned. The $3,000,000 which is now in the Treasury account will be needed almost immediately for disbursement on development projects, as stated in Despatch 348 of April 10, 1956. However, the Embassy/USOM continue to adhere to the opinion expressed in Despatch 348 that the device of a U. S. Treasury account for LARC funds appears to serve no useful purpose and might well be abandoned. Department/ICA comments are requested.

John L. Tappin
American Ambassador

cc: Benghazi
USOM

Enclosures:

1. Minutes of the Ninth Meeting
2. Minutes of the Tenth Meeting

} Retained in AF/N files.

(Cleared in draft by H.J.Gordon)

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